TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

HB 2113 – SB 2208

March 15, 2016

SUMMARY OF ORIGINAL BILL: Extends the Hall Income Tax due date for certain members of the military, from 180 days to 210 days from the conclusion of hostilities in which such persons are engaged outside the United States, or after such persons are transferred from the theater of operations of such hostilities, whichever is sooner.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENT (013597): Deletes all language of the original bill. Requires annual adjustments, beginning on January 1, 2017, to the maximum allowable income exemption levels, for single and joint filers of the Hall Income Tax (HIT), including taxpayers who are 65 years of age or older, by the percentage change of the consumer price index as published by the United States Department of Labor, Bureau of Labor Statistics. Requires such exemptions to be rounded to the nearest $100.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – Net Impact – $552,700/FY17-18
$716,600/FY18-19
$1,164,900/FY19-20
$1,580,900/FY20-21
$2,041,600/FY21-22
Exceeds $2,041,600/FY22-23 and Subsequent Years

Decrease Local Revenue – Net Impact – $302,000/FY17-18
$391,500/FY18-19
$636,400/FY19-20
$863,700/FY20-21
$1,115,500/FY21-22
Exceeds $1,115,500/FY22-23 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions for the bill as amended:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes shall be applied to tax years beginning with tax year 2017, and assuming that 100 percent of HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill will be FY17-18. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee estimate for HIT collections in FY16-17 is $270,000,000. This number is assumed to remain constant in subsequent years under current law.
- It is assumed that the annual percentage change of the consumer price index will be two percent.
- Based on data provided by the Department of Revenue, it is estimated that the proposed increases in the exemption levels will result in a decrease in HIT collections of: $897,282 in FY17-18; $1,163,318 in FY18-19; $1,891,147 in FY19-20; $2,566,501 in FY20-21; and $3,314,539 in FY21-22. The decrease in HIT collections in FY22-23 and subsequent years is estimated to exceed $3,314,539. The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- Based on the apportionments of HIT collections for the last three fiscal years (FY12-13, FY13-14, and FY14-15), it is estimated that the state retains 64.97 percent of HIT revenue and local governments are apportioned 35.03 percent.
- The decrease in HIT revenue for the state is estimated to be $582,964 ($897,282 x 64.97%) in FY17-18, $755,808 ($1,163,318 x 64.97%) in FY18-19, $1,228,678 ($1,891,147 x 64.97%) in FY19-20, $1,667,456 ($2,566,501 x 64.97%) in FY20-21, $2,153,456 ($3,314,539 x 64.97%) in FY21-22, and will exceed $2,153,456 in FY22-23 and subsequent years.
- The decrease in HIT revenue for local governments is estimated to be $314,318 ($897,282 x 35.03%) in FY17-18, $407,510 ($1,163,318 x 35.03%) in FY18-19, $662,469 ($1,891,147 x 35.03%) in FY19-20, $899,045 ($2,566,501 x 35.03%) in FY20-21, $1,161,083 ($3,314,539 x 35.03%) in FY21-22, and will exceed $1,161,083 in FY22-23 and subsequent years.
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; and the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net increase in state sales tax revenue is estimated to be:

- o $30,269 [($897,282 x 50.0% x 7.0%) - ($897,282 x 50.0% x 7.0% x 3.617%)] in FY17-18;
- o $39,243 [($1,163,318 x 50.0% x 7.0%) - ($1,163,318 x 50.0% x 7.0% x 3.617%)] in FY18-19;
- o $63,796 [($1,891,147 x 50.0% x 7.0%) - ($1,891,147 x 50.0% x 7.0% x 3.617%)] in FY19-20;
- o $86,579 [($2,566,501 x 50.0% x 7.0%) - ($2,566,501 x 50.0% x 7.0% x 3.617%)] in FY20-21;
- o $111,813 [($3,314,539 x 50.0% x 7.0%) - ($3,314,539 x 50.0% x 7.0% x 3.617%)] in FY21-22.
- o The net increase in state sales tax revenue will exceed $111,813 in FY22-23 and subsequent years.

- The total increase in local sales tax revenue is estimated to be:
  - o $12,352 [($897,282 x 50.0% x 2.5%) + ($897,282 x 50.0% x 7.0% x 3.617%)] in FY17-18;
  - o $16,014 [($1,163,318 x 50.0% x 2.5%) + ($1,163,318 x 50.0% x 7.0% x 3.617%)] in FY18-19;
  - o $26,033 [($1,891,147 x 50.0% x 2.5%) + ($1,891,147 x 50.0% x 7.0% x 3.617%)] in FY19-20;
  - o $35,330 [($2,566,501 x 50.0% x 2.5%) + ($2,566,501 x 50.0% x 7.0% x 3.617%)] in FY20-21;
  - o $45,628 [($3,314,539 x 50.0% x 2.5%) + ($3,314,539 x 50.0% x 7.0% x 3.617%)] in FY21-22.
  - o The total increase in local sales tax revenue will exceed $45,628 in FY22-23 and subsequent years.
- The net decrease in state revenue as a result of this bill is estimated to be $552,695 ($582,964 - $30,269) in FY17-18, $716,565 ($755,808 - $39,243) in FY18-19, $1,164,882 ($1,228,678 - $63,796) in FY19-20, $1,580,877 ($1,667,456 - $86,579) in FY20-21, $2,041,643 ($2,153,456 - $111,813) in FY21-22, and will exceed $2,041,643 in FY22-23 and subsequent years.
- The net decrease in local revenue as a result of this bill is estimated to be $301,966 ($314,318 - $12,352) in FY17-18, $391,496 ($407,510 - $16,014) in FY18-19, $636,436 ($662,469 - $26,033) in FY19-20, $863,715 ($899,045 - $35,330) in FY20-21, $1,115,455 ($1,161,083 - $45,628) in FY21-22, and will exceed $1,115,455 in FY22-23 and subsequent years.
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population increases. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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